



**State of the Commonwealth
February 1, 2011
Governor Steve Beshear**

Mr. President, Mr. Speaker, distinguished members of the Kentucky General Assembly, Lt. Governor Mongiardo, Constitutional officers, honorable members of the Court of Justice, honored guests, including Kentucky's First Lady and my fellow Kentuckians ...

I come here for the fourth time to report on the State of our Commonwealth ... and I do so with somber appreciation of the hard times we've endured together.

Our families have been battered by a national recession born of greed on Wall Street and reckless spending in Washington.

Kentuckians are rightly disgusted by a federal government that defines fiscal management as the speed at which you can print money.

In Kentucky, our families respond to economic pressures differently. They work harder and spend less.

And for three years I've run Frankfort just like our families run their budgets.

Talking about shrinking government is easy. Actually doing it requires courage and commitment.

Faced with crushing shortfalls, we have balanced Kentucky's budget eight times in three years, slashing over a billion dollars in spending.

We have reduced the executive branch to its smallest size in decades, including a reduction in the so-called non-merit work force by an additional \$5 million, starting at the highest levels.

In my own office, six of the most important jobs – including budget director and chief of staff – are being performed by three people.

Perks like take-home cars are a thing of the past.

And when we made the tough decision to save \$24 million by furloughing most state workers for six days, we included my entire staff.

I'm taking the six days without pay myself, and I also voluntarily cut my own salary an additional 10 percent – as have my top staff and cabinet secretaries.

My message to the people of the state is this: We are in this together. We will share your sacrifice because we work for you.

As the statesman Henry Clay said 182 years ago: *“Government is a trust, and the officers of government are trustees. And both the trust and the trustees are created for the benefit of the people.”*

To further show our desire to be good trustees, we created a Web site that allows Kentuckians to find out exactly how their money is being spent.

That Web site has been named the best in the nation.

And soon, as part of our ongoing Smart Government Initiative, I'll unveil more efficiency measures focusing on state vehicles, properties and contracts.

We have also shored up Kentucky's public pension funds, reducing benefits for new employees, eliminating pension double-dipping and mandating appropriate expertise for those making investment decisions.

If we stick to our contribution schedule, our public pension system will be on sound footing.

From day one, we have cut spending and increased efficiencies, putting Kentucky in a better position than many states that have had to make drastic cuts to core services.

New Jersey laid off 3,000 teachers in May.

Virginia cut \$700 million from K-12 education in the current biennium. Georgia cut education by \$403 million in Fiscal Year '11 alone.

And Michigan laid off about 100 state troopers and cut student financial aid by over 60 percent.

Still other states have balanced their budgets in another way – by raising broad-based taxes.

Illinois recently raised its individual income tax 66 percent and its corporate income tax 46 percent.

New Mexico reduced income tax deductions.

Maryland raised its sales tax.

And in Georgia, a panel appointed by the legislature wants to tax groceries.

I have opposed broad-based tax increases in Kentucky, and I will continue to oppose them during this legislative session.

I will not threaten the survival and growth of our businesses at this perilous moment.

I will not burden our families as they struggle to survive.

And I will not jeopardize our fragile recovery.

Last October, the national Tax Foundation ranked Kentucky's Business Tax Climate 19th best in the nation, up an incredible 15 spots in one year.

We're ahead of neighbors Illinois, Ohio, West Virginia and Tennessee, which was ranked 27th.

Taxes are not the answer.

And neither is decimating our priorities -- education, creating jobs and public safety.

Instead, we have acted in a calm, strategic and measured way to rein in government with an eye not just on short-term survival but also on long-term progress.

And that strategy is working.

The light at the end of the tunnel is real, and we are moving closer to it.

What is the evidence?

- In the last year and a half, nearly 250 companies have used our new incentive programs to announce planned investments of almost \$2.2 billion. That's *billion*.
- More than half of Kentucky's manufacturers plan to hire in 2011.
- Unemployment rates are down in 84 counties from a year ago.
- State receipts are up 5.4 percent through the first half of the year – the first time in three years that revenues aren't falling short of projections.
- A focus on safety led by dedicated law enforcement officers has made our highways the safest they've been in 25 years.
- Our prison population is dropping, and fewer offenders are returning to prison.

- And we are attracting visitors and gaining fans worldwide with the Alltech-FEI World Equestrian Games, the Kentucky Bourbon Trail and the upcoming NASCAR Sprint Cup Series race.

The economic impact of a NASCAR race alone has been estimated at \$150 million.

If you don't believe me, ask Jerry Carroll, who built the Kentucky Speedway.

Ask Bruton Smith, who bought the track and worked his magic to attract the Sprint Cup, with the help of Kentucky incentives.

Or ask Darrell Waltrip, an Owensboro native who won three NASCAR Cup titles.

Jerry and Darrell are with us tonight. Will you stand up so we can recognize you?

Now, difficult times are not over.

Many Kentuckians still need jobs, and I will not be satisfied until they have them.

Creating jobs is slow work. It's hard work.

But there is no doubt that our efforts are gaining momentum.

As my Dad and Granddad, who were both Baptist ministers, often told us: Tears last through the night, but joy comes in the morning.

Our challenge, this night and in the mornings ahead, is to continue employing sound and strategic approaches to help our families and businesses survive ... attacking fundamental problems plaguing our people ... and transforming government through a strict diet of fiscal responsibility, ethics and integrity.

My top priority has been creating and retaining jobs.

Nothing will help our families more.

Since we created our new incentive programs in the summer of 2009, 248 projects have been approved and are moving forward.

They represent potential investment of \$2.2 billion ... almost 14,700 new jobs ... and more than 4,800 existing jobs saved.

These projects are spread throughout the state.

Companies like Remington Arms in Graves and Hardin counties ... ZF Steering Systems in Boone County ... Magna Car Top Systems in Warren County ... Tiffany and Company Jewelers in Fayette County ... and Ferus Corporation in Letcher County.

Now creating new jobs is important. But retaining jobs that are in jeopardy is just as critical.

Let me give an example.

A couple of years ago, National Office Furniture was hit simultaneously with the recession and a market shift – customers wanted a UV finish that the company didn't have at its plant in Ohio County.

Jobs were in danger.

But we used our new economic development tools to help parent company Kimball International retool the plant and add the new UV finish line.

Kimball made a \$4.5 million investment.

The company benefited. Kentucky benefited. And 203 Kentucky families kept their paychecks.

In the audience tonight are Keith Beatty, director of finish at National Office Furniture ... and Karen Hedden, a 27-year employee of the company.

Will you please stand so we can recognize you?

A big focus has been working with existing companies.

General Electric, for example, announced three new product platforms in Kentucky in the last two years, creating 1,300 jobs ... and Ford Motor Company in December announced an additional \$600 million investment at its Louisville Assembly Plant, eventually creating 1,800 new jobs.

But we've also used a unique program that matches federal high-tech grants to attract and groom smaller companies with innovative ideas in fields like biosciences and energy.

And two new initiatives will help smaller businesses export goods overseas and recover investments in staff and equipment.

Meanwhile, south of Louisville, we have been working hand in hand with local leaders and the U.S. military on the realignment of Fort Knox, which is nearing completion and

will eventually create 7,000 to 8,000 jobs.

We must also find ways to preserve a \$4 billion equine industry that employs 100,000 Kentuckians and maintains our reputation as “Horse Capital of the World.”

And in Lexington we're working with federal partners to construct a national research laboratory that will develop and market advanced battery technologies for cars of the future.

The center complements the comprehensive energy plan we put forth two years ago focusing on energy efficiencies ... expanded alternative and renewable energies ... and clean use of Kentucky coal.

Coal provides 90 percent of our electricity and – because our rates are low – has helped us build a robust manufacturing industry.

But all that is in jeopardy because Washington bureaucrats continue to try to impose arbitrary and unreasonable regulations on the mining of coal.

To them I say “*Get off our backs!*”

I will fight you for the right to cleanly and safely mine coal.

I will fight you on behalf of 18,000 Kentucky coal miners who are working to feed their families.

And I will fight you to keep this nation strong by supplying it with the energy it needs to remain the beacon of democracy in a troubled world.

Yes, we are standing firm and making progress in Kentucky, even during a historic recession, and outside experts agree.

Economists at Moody's predict that Kentucky will experience a higher percentage job growth in the coming year than all but four states.

In Forbes' fifth-annual rankings of best places to do business, Kentucky improved by 12 places in 2010.

And USA Today ranked Kentucky 4th among states in personal income growth since the recession was declared over.

This is independent recognition of the strategic and sound approaches we've taken to rebuild our economy.

But for businesses to succeed long term, we need a better-educated workforce.

Kentucky has made real progress on education at all levels.

In Education Week's 2011 Quality Counts report – which offers a highly respected assessment of education – Kentucky ranked 19th among the 50 states.

A decade ago, such a ranking would have been considered unattainable.

Furthermore, our students are performing at a higher level.

On the most recent National Assessment of Educational Progress – called “the nation's report card” -- Kentucky's 4th and 8th graders outperformed the national average in science.

In reading, Kentucky was the only state to improve both 4th- and 8th-grade scores between 2007 and 2009.

At the same time, a growing number of Kentucky students are entering college, fewer need remedial help and more are graduating.

I credit strong leadership at all levels of education -- our teachers, principals, school board members, superintendents and university presidents.

But we must not be satisfied, because we are not yet where we should be.

That's why we should move ahead with the implementation of Senate Bill 1 ... and that's why we must address a long-standing problem by raising the mandatory school attendance age to 18.

Our youth need more education, not less.

Their economic security depends on it.

A student who drops out will earn about \$7,000 less a year than a student who completes high school in Kentucky. If a person goes on to college, that gap is larger – over a career, it tops a million dollars.

Dropouts also add burdens in the way of higher welfare and prison costs.

It's incomprehensible that some Kentucky leaders passively watch while so many of our youth walk away from school with no plan for their future.

The Graduation Bill will change that.

House Bill 225 phases in the new requirement to give schools time to implement it.

And it answers concerns about unmotivated students by creating alternative programs. Some students simply don't learn as well in traditional settings.

Last year, the House passed this bill overwhelmingly in a bi-partisan vote, and I am confident it will do so again this session. It's time for the Senate to do the same.

To further help in reducing our dropout rate, we're aligning our early childhood education and development programs to ensure our children enter kindergarten prepared and able to do the work.

Because good health is such an integral part of that readiness, we have tracked down and enrolled almost 52,000 Kentucky children who were eligible for health care but had slipped through the cracks.

A healthier start in life will pay off exponentially in better school performance, fewer chronic medical conditions and lower long-term costs.

At the same time, we have been addressing fundamental problems in Kentucky's health as a whole:

- We've made it easier for smokers to quit by expanding and funding time-tested cessation programs.
- We're training more dentists to treat children in poor areas.
- We have helped seniors and others access \$70 million in free prescriptions from drug companies, prescriptions they need to stay alive and stay healthy.
- And I'm working with legislators right now to find ways we can protect our vulnerable seniors from physical and financial abuse and exploitation.

Now, during this national financial crisis, the General Assembly and I have become adept at balancing budgets – in fact, we've done it eight times in three years.

Well, now we must do it a ninth time.

As you know, the current Medicaid budget was balanced on expectations of funding from Congress that did not materialize.

So there is a significant shortfall. We must fill it.

Fortunately, the problem is limited to the first year of the biennium. I have proposed a solution that both fixes this short-term problem and provides long-term solutions to the program's soaring costs.

We will move \$166.5 million from the 2012 Medicaid budget to the current 2011 Medicaid budget to resolve the shortfall.

At the same time, we will increase the use of private sector managed-care principles in the Medicaid program to run it in a more cost-effective manner.

This model has worked in other states, and adopting it in Kentucky will save more than enough money in the second year of the biennium to rebalance that year's budget.

This proposal uses Medicaid money to fix a Medicaid problem – it does not cut education or other priorities to fix this program.

This proposal needs to pass.

If it doesn't, we will have to cut \$600 million in services at a time when they are desperately needed, or cut reimbursement rates to our providers by 30 percent.

Neither alternative is acceptable.

Our solution is a responsible one ... and it goes hand in hand with ongoing efforts that are already saving hundreds of millions of dollars by targeting fraud and abuse ... reducing the unnecessary use of medical services, treatments and ER visits ... managing pharmacy costs ... and making other changes.

Now, some in the Frankfort media predict this session will be a circus, and that nothing will be accomplished.

I invite the General Assembly to join me in proving them wrong.

Some of us have different ideas about how to fix Kentucky's problems. But that doesn't mean we cannot and should not make life better for our people by identifying areas of agreement and places to collaborate.

I am confident we can do that because over the last three years we *have* done it:

Together, we balanced the budget eight times ... we protected basic funding for classroom teaching ... we brought stability to the Unemployment Insurance Trust Fund ... we enacted pension reform ... we created incentives that have helped jumpstart the Kentucky economy ... we smoothed the transfer of credits from two-year colleges to four-year institutions ... we lured a NASCAR race ... and we invested in the transformation of Fort Knox and the surrounding region.

In the days ahead, we need to work together to increase the graduation rate ... rebalance Medicaid ... protect our elderly from harm ... and improve the service we give businesses.

For example, Senator David Givens and Senator David Williams have proposed a one-stop electronic business portal to speed up and simplify how businesses register and otherwise interact with the state.

Senator Givens and Senator Williams are Republicans. I am a Democrat.

But the one-stop portal is a good idea, and I support it.

Mr. Speaker, I ask that you and the House of Representatives work with Senate leadership and me to turn this good idea into law.

This is a perfect example of where we can and should find common ground.

Too often we in Frankfort worry about “winning” and “losing” in the political arena inside this Capitol building. But life inside this building is not what Kentucky is all about.

The *real* Kentucky is out there -- in our 120 counties, in homes, on farms and along Main Streets.

Outside this building, people are sick and tired of partisan rhetoric and political posturing.

Rank partisanship doesn't put food on the table. It doesn't educate a child, and it doesn't create a job.

Increasingly, that kind of politics inspires only hate and distrust.

Kentucky doesn't need division right now.
We need unity.

Across the ocean, our sons and daughters are at war in a harsh climate of desert sand and

rugged mountainside.

They are upholding a proud Kentucky tradition of service that dates to the War of 1812.

In fact, the Commonwealth has recently deployed in Iraq, Kuwait and Afghanistan the largest contingent of soldiers, sailors and airmen of any state in the nation.

More than 20 percent of all U.S. forces in the Central Command area came from Fort Campbell and Fort Knox ... from the Kentucky Air and Army National Guard ... from Marine Corps units at Fort Knox ... and from the state's Army and Navy Reserve units.

Since 9/11, the Kentucky National Guard has deployed more than 14,000 soldiers and airmen to defend our nation, many of them two and three times.

And this summer, our Guard will deploy its largest contingent since World War II.

These men and women have performed heroically, not just abroad but here in Kentucky, during a record number of natural disasters.

Major General Edward Tonini, Kentucky's adjutant general, is here tonight ... along with Lt. Col. Robert Hamm, a resident of Louisville who just returned from Afghanistan, where he was mission commander and director of critical airlift operations in Bagram.

General Tonini and Lt. Col. Hamm, will you please stand so we can recognize you?

The lead U.S. Army element in Afghanistan has been the 101st Airborne Division at Fort Campbell -- the "Screaming Eagles" -- which deployed more than 19,000 soldiers in the fiercest combat zones.

An additional 1,200 soldiers have been based in Kuwait, supporting operations in Iraq.

I served in the U.S. Army Reserves but I feel special affinity for *this* unit, because I was privileged last December to be designated an honorary Screaming Eagle by the commander of the 101st, Major General John F. Campbell.

And I and all Kentuckians personally feel the loss of 107 soldiers from Fort Campbell who have been killed over the past year.

The family members of our men and women in service also sacrifice -- worrying about loved ones overseas while holding their families together here at home.

In many ways their commitment and support is the very foundation of our military.

Tonight we have with us Ann Campbell, who as wife of Major General Campbell and a family outreach volunteer carries a heavy burden.

Mrs. Campbell, will you stand so we can recognize the 101st and the families who support them?

I am awed by the courage, dedication and sacrifice of these soldiers and their families – just as every Kentuckian should be.

I see the same courage and resolve in Kentuckians all over this state.

Over the past three years, I've visited communities decimated by storms. I've talked with people who have lost their jobs, who worry about paying for food and medicine and who are trying to hold on to their homes.

I've witnessed struggle and pain.

But I have also witnessed strength and hope.

Kentuckians are a people who refuse to surrender, who have been beaten down but haven't backed down, and who are determined to stand up for themselves, their families and their neighbors.

I've been reminded, time and again, of poet laureate Jesse Stuart's description of the Bluegrass spirit: *"If these United States could be called a body, Kentucky can be called its heart."*

My friends, Kentucky is the nation's heart, and that heart is getting stronger.

Times have been hard. They remain hard. But we are turning the corner, and we are doing so ahead of most other states.

We have come a long way together, and we cannot quit now.

Tonight, let us remember that the steps we are taking will ensure not only our short-term survival ... but also prosperity for our children and grandchildren long after we are gone.

That, my friends, is what this is all about.

Good night, God bless you, and God bless the Commonwealth of Kentucky.

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